

## **SJ-EXHIBIT 2**

U.S. Department of Justice  
Drug Enforcement Administration

## REPORT OF INVESTIGATION

Page 1 of 8

1. Program Code	2. Cross File	Related Files	3. File No. [REDACTED]	4. G-DEP Identifier
5. By: Michael D. Kupchick, DI At: Pittsburgh DO	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		6. File Title HBC Service Co. - 601A Meadowlands Blvd., Wash., PA 15301	
7. <input type="checkbox"/> Closed <input type="checkbox"/> Requested Action Completed <input type="checkbox"/> Action Requested By:			8. Date Prepared 05-20-2011	
9. Other Officers: DI Vincent Tomei				
10. Report Re: Cyclic CYCLIC INVESTIGATION AND CASE CLOSING [REDACTED]				

### SYNOPSIS

On May 13, 2011, pursuant to the Pittsburgh District Office Cyclic Workplan for FY-2011, Investigators Michael Kupchick and Vincent Tomei conducted an on-site regulatory investigation of HBC SERVICE COMPANY, Inc., located at 601 Meadowland Boulevard, Washington, PA 15301.

HBC SERVICE COMPANY is registered with DEA as a chemical handler under DEA# 001753HVY to distribute over-the-counter List I chemicals pseudoephedrine and ephedrine.

This investigation was initiated on May 13, 2011, and concluded on the same date with a meeting with management.

With respect to the requirements of a List I chemical distributor, no violations of 21 Code of Federal Regulations were uncovered. This case is closed.

11. Distribution: Division  District  Other [REDACTED]	12. Signature (Agent)  Michael D. Kupchick, DI	13. Date 05-23-2011
	14. Approved (Name and Title)  /s/ Kurt G Dittmer, GS	15. Date 05-25-2011

DEA Form - 6  
(Jul. 1996)

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DEFENDANT'S DEPOSITION  
EXHIBIT  
**3**  
**Colosimo**

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**ENCLOSURES**

1. DEA Form 82, Notice of Inspection
2. DEA Certificate of Registration 001753HVY
3. PA Department of Health certificate
4. WVA certificate
5. Ohio certificate
6. Maryland certificate
7. Product List
8. Supplier List
9. Customer List
10. Purchase Orders
11. Invoices
12. Receiving Report
13. Product Inventory on 5/13/2011

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## DETAILS

### 1. BASIS FOR INVESTIGATION

On May 13, 2011, pursuant to the Pittsburgh District Office Cyclic Workplan FY 2011, Investigators Michael Kupchick and Vincent Tomei conducted an on-site regulatory investigation of HBC SERVICE COMPANY, registered with DEA as a distributor of OTC List I chemicals pseudoephedrine and ephedrine.

### 2. SUBJECT FIRM BACKGROUND

HBC SERVICE COMPANY, located at 601 Meadowlands Boulevard, Washington, PA, 15301, was approved as a chemical distributor on August 27, 1997, and was assigned DEA Registration Number 001753HVV. The subject firm was last the subject of a regulatory investigation in February 5, 2008 (see ROI [REDACTED] dated 2-11-08). No violations were uncovered during this investigation.

HBC (Health and Beauty Care) SERVICE COMPANY is a division of Giant Eagle Super Market Corporation, with corporate headquarters at 101 Kappa Drive, Pittsburgh, PA. The subject firm distributes general merchandise, health and beauty aids, and over-the-counter products containing List I chemicals to approximately 150 Giant Eagle supermarkets located in Pennsylvania, West Virginia, Ohio, and Maryland. The firm also distributes these products to other independent supermarkets located in these states, such as Sparkle Super Markets.

The subject firm is licensed with the Pennsylvania Department of Health as a distributor of non-prescription drugs under Certificate Number 3000008128, expiration date March, 2012.

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HBC is also licensed in West Virginia, certificate # 1022-8050, with an expiration date of 6-30-11; Ohio # 00962, expiration 6-30-11; and Maryland # 078801, 6-30-2011.

A query of NADDIS and CHEMS did not reveal any negative information regarding the subject firm.

### 3. PERSONS INTERVIEWED AND INDIVIDUAL RESPONSIBILITIES

On May 13, 2011, Investigators Kupchick and Tomei presented their credentials and a Notice of Inspection (DEA Form 82) to Walter DURR, Distribution Operations Manager, for the subject firm. The investigators advised DURR of the firm's rights to not have an administrative inspection made without an administrative inspection warrant. DURR then read and signed the DEA Form 82, giving his consent for the inspection to proceed. DURR stated that he is responsible for the firm's recordkeeping with respect to List I chemicals.

### 4. PRINCIPALS OF THE FIRM

Lora Karet, President and Chief Operating Officer  
Larry Baldauf, Senior Vice President of Distribution  
Robert Schreck, Vice President of Distribution  
Walter Durr, Distribution Operations Manager

NADDIS queries on these individuals did not reveal any negative information.

### 5. RECORDKEEPING

The investigators reviewed acquisition documents, inventory records, and distribution records for the firm's OTC products containing List I chemicals. Investigators also reviewed the current customer database. A review of various distribution invoices reveals that HBC SERVICE COMPANY

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is recording distributions in accordance with the requirements set forth in 21 CFR Part 1310.

All pertinent information with regard to recordkeeping was discussed with Mr. DURR. Suspicious orders and large quantity order notification requirements were also discussed. DURR stated that he understood these requirements.

DURR provided the investigators with a list of their distributed items which contain List I chemicals, primarily pseudoephedrine. A review of the products indicated that, with the exception of items manufactured by Giant Eagle Corporation, all products were "brand name." There were no "off label" items distributed.

According to DURR, all of the firm's products, including List I chemicals, are counted four times per month. He indicated that the firm's inventory control system is able to determine the identity of the employee who picked a particular customer order. He stated that the firm has not had any thefts of products containing List I chemicals since they were initially registered with DEA in 1997.

DURR provided investigators with a list of suppliers of List I chemical products and a list of their chemical product customers.

#### 6. SECURITY

HBC SERVICE COMPANY is the sole occupant of a 305,000 square foot warehouse (constructed of concrete and steel) located within a light industrial park in Washington County. A sign at the entrance to the property identifies the tenant as HBC Service Company - nothing that would indicate the presence of List I chemicals. The firm operates five days per week, 24 hours per day. There are approximately 200 employees working varied hours.

A visual inspection of the facility revealed passive infrared motion detectors and magnetic contact switches (for all exterior doors, including shipping and receiving doors) were strategically located throughout the firm, appearing to provide adequate security coverage. Glass break

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sensors are located in all rooms with exterior windows. Surveillance cameras are positioned to monitor the employee entrance and receiving door 24 hours per day; video footage is stored for a period of 30 days. The exterior of the warehouse is illuminated from dusk to dawn.

All employees are required to use a radio frequency security card to enter and leave the warehouse. Through this device, the subject firm is able to identify the date and time of employee ingress and egress.

The firm's electronic security is monitored by Sonotrol Security Company. DURR advised the investigators that when an alarm sensor is activated in the firm, a signal is transmitted to Sonotrol, who then notifies the North Strabane Township Police Department. After the police department is notified, Sonotrol will call a representative from the subject firm. According to DURR, the firm has not had any break-ins since they were registered by DEA in 1997. When an alarm is activated, an audible alarm can be heard throughout the warehouse.

DURR stated that in the event of a power outage, the firm's electronic security is maintained through battery backup.

Andrew DURR stated that all warehouse employees are initially hired through Kelly Services, a temporary employment agency. Before an employee is hired, a criminal history background check is conducted. He stated that the firm has a "zero tolerance" policy with respect to employee pilferage; an employee caught stealing merchandise is immediately terminated from employment.

The subject firm's security appeared to be adequate.

#### 7. DISCUSSION WITH MANAGEMENT

On May 13, 2011, at the conclusion of the inspection, Investigators Kupchick and Tomei met with DURR. The investigators advised DURR that the firm appeared to be in compliance with 21 CFR Part 1310.

Investigators advised DURR that pseudoephedrine and ephedrine are being used as immediate precursors for manufacturing methamphetamine.

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Investigators also advised DURR that all suspicious orders must be reported to the Pittsburgh D.O.

8. INTELLIGENCE

Mr. DURR was not able to provide the investigators with any relevant intelligence relating to the diversion of List I chemicals.

9. CUSTOMER VERIFICATIONS

Sales verifications of List I chemicals were conducted on May 23, 2011 with Giant Eagle Village Square, 700 Oxford Drive, Bethel Park, PA 15102. No additional actions are required in this investigation; therefore, this case is closed.

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**INDEXING**

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Regulatory investigation, no violations

2. DURR, Walter 

No update needed

3. SCHRECK, Robert 

No update needed